

INFORMATION PAPER

CFO ISSUES – FY 2000 AUDIT

Issue: Labor Cost Transfers

Reference:

ER 37-2-10 Financial Administration, Accounting and Reporting – Civil Works, Activities, Chapters 7 (Labor Costs and Labor Cost Correction) and 22 (Revolving Fund Accounting for Departmental Overhead)

31 USC 1301, Purpose Statute

31 USC 1517, Anti-Deficiency Act

US Army Audit Agency (USAAA) Audit Report, SR94-481, 30 Jun 94 of the U. S. Army Corps of Engineers Financial Statements, Civil Works, recommendation B-7, B-8

US Army Audit Agency (USAAA) Audit Report, SR95-449, 13 Mar 95 of the U.S. Army Corps of Engineers Financial Statements, Civil Works, recommendation A-4, A-5

US Army Audit Agency (USAAA) Audit Report, AA97-136, 28 Feb 97 of the U. S. Army Corps of Engineers Financial Statements, Civil Works, finding E page 58-60

US Army Audit Agency (USAAA) Draft Audit Report, 27 Mar 98 of the U. S. Army Corps of Engineers, Civil Works, FY97 Financial Statements, Report on Internal Controls and Compliance with Laws and Regulations, internal control page 12-13, recommendation 1

CERM-P memorandum, 21 Apr 1998, subject Operating Guidance for Standard Costing Behavior

CERM-F memorandum, 25 Jun 1998, subject Command Policy for CEFMS's "Labor Dispute"

Transactions

CERM-P memorandum, 16 Sep 1998, subject Additional Operating Guidance for Standard Costing Behavior

US Army Audit Agency (USAAA) Draft Audit Report, AA 99-XXX, 15 Jan 99 of the U. S. Army Corps of Engineers Financial Statements, Civil Works, internal control page 24

Description: US Army Audit Agency (USAAA) reported improper labor cost transfers in civil and military projects. USAAA cited this problem in their FY93 and FY94 audits. The Corps started reporting labor cost transfers as a material weakness in FY94, and implemented stricter measures to justify transfers and hold personnel accountable. Since the FY94 audit, the Corps has made significant improvement in reducing and justifying labor cost transfers. The Corps changed system programming and implemented procedures to ensure that improper time charges are reported on the labor dispute report and corrected immediately and accurately.

Requirements for Compliance:

Standard:

(1) Prior to the start of work, fund manager will coordinate with appropriate staff to determine realistic project estimates, to include all direct and overhead costs.

(2) Staff must track time, attendance and labor information on a daily basis. When a team member works 15 minutes or more on a specific project, the labor for that effort is charged directly to the project.

(3) Staff will monitor costs and workload. Staff should review the workload periodically during their tasking. If it becomes evident that allocation or time limit is insufficient to complete assigned task, staff should notify supervisor, who, in turn, will notify the fund manager. Supervisor will direct all staff to **stop work** on a project upon exhaustion of funds and notify fund manager that work is stopped until the funding issue is resolved.

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(4) If funds are not sufficient to cover anticipated charges, the fund manager must take appropriate action to prevent an over obligation of funds. Possible action to preclude an over obligation may include requesting additional funds, reprogramming funds, or stopping work. The fund manager will coordinate with the appropriate supervisors to ensure that work will be stopped until additional funds are obtained. No additional work shall be performed prior to receipt of appropriate funds.

(5) Once labor is processed in the accounting system, valid labor transactions processed to projects with insufficient funds will be reflected on the project dispute report. Steps for resolving labor dispute transactions include:

(a) Responsible project managers and functional chiefs retrieve weekly from CEFMS a complete list of labor dispute transactions and resolve immediately. Increasing the in-house obligation balance or obtaining additional funds are excellent examples of corrective actions.

(b) The Resource Management Officer or designated F&A Officer must review the weekly consolidated dispute labor report and inform the Commander in writing of those dispute labor transactions posted in this FY and more than 30 calendar days past due the accounting period charged.

(c) Failures to resolve the dispute labor report within 60 additional calendar days (total of 90 days aged) will require the Resource Management Officer or designee to submit to HQUSACE an AR 15-6 investigation initiated.

(6) Some examples of acceptable reasons for initiating a labor cost transfer request include:

(a) A team member entering a wrong labor charge code on his or her time sheet.

(b) A timekeeper making a typing error while entering labor into the CEFMS Timekeeping System.

(c) Team members charging to inappropriate work items within the same project or by changes to prior estimates submitted to the timekeeper.

(7) Steps to request and approve a labor cost transfer:

(a) Determine who is responsible for initiating the request for a labor cost transfer. For clerical errors, the initiator may be the timekeeper, supervisor, or employee. If it is a change to a labor charge code, the initiator must be the fund manager or analyst. The fund manager, analyst, and supervisor will work together to research the problem and determine the correct solution. Corrective actions must take place immediately.

(b) The initiator of the labor cost transfer must have designator authority in CEFMS. This designated individual will enter the request for labor cost transfer into CEFMS identifying the fund manager, analyst and supervisor who jointly determined the need for the labor cost transfer. The request must also include a time frame, improper labor charge code, correct labor charge code, cost per resource code, organization code, number of hours to be adjusted, and the name of the team member involved.

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(c) A supervisory signature noting approval is required to process a labor cost transfer. Supervisors are responsible for reviewing the labor cost transfer request and for ensuring that the transfers are appropriate before signing electronically. Cost records will not be updated until a successful electronic signature is obtained. Inappropriate or incomplete labor cost transfer requests will be returned to the originator for necessary action.

(10) In all cases, the district Resource Management Officer as well as the division and office chiefs will monitor labor cost transfer practices to uncover repetitive problems and/or trends, and take corrective action.

Field Action(s):

(1) Comply with written standards stated above.

(2) Establish SOP for labor cost transfers.

Self-Assessment Rating Criteria:

Green (Compliant): All districts must have an established SOP for labor cost transfers. Included at Enclosure 1 is a sample SOP prepared by the Tulsa District. You may use this SOP as your model and alter it to fit your needs.

HQUSACE Actions:

CERM-F: District Command Inspection Visit to ensure field's compliance with the official regulation/policy.

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SAMPLE STANDARD OPERATING PROCEDURE - PROJECT LABOR COSTS

1. **PURPOSE:** The purpose of this document is to establish standard operating procedures for charging labor costs to project funds and to establish requirements for processing labor cost transfers.
2. **BACKGROUND:** Labor cost is charged to each project based on the direct charging rule which states if an employee of a technical organization works 15 minutes or more on a specific project then the employees labor effort will be charged to that project. Labor cost for work performed that is not directly related to a specific project will be charged to departmental overhead. Proper labor costing procedures are necessary to comply with Federal funding laws and regulations. Proper costing of labor will ensure accurate financial statements and customer billings.
3. **RESPONSIBILITIES:** All employees are responsible for reporting correct time and attendance information to timekeepers. This includes reporting accurate hours worked on specific projects. Supervisors are responsible for ensuring time and attendance information is correct and that their employees do not exceed the funds authorized to perform the work. Managers (project, technical, departmental, lake, etc.) are responsible for monitoring fund availability by ensuring there are sufficient funds prior to starting or continuing work on specific projects. If labor costs exceed funds, F&A is required to report a potential violation of the Anti-Deficiency Act to HQUSACE and to the Department of the Army. Reviews and investigations will be performed in accordance with AR 15-6. Finance and Accounting (F&A) is responsible for ensuring labor costs are entered in CEFMS and that all labor errors are promptly corrected and recorded in the accounting system. F&A will review all labor cost transfers to ensure justifications are reasonable and properly approved.
4. **REQUIREMENTS:** Employees will report daily time, attendance, and project labor information to their timekeeper. Work of 15 minutes or more on a specific project will be charged to that project (direct charging rule). Supervisors certify the accuracy and correctness of time, attendance, and project labor costs by electronic signature card. Labor will be recorded in CEFMS after each pay period ending (PPE) date or whenever Time and Attendance (T&A) is certified by the supervisor, whichever comes first. Managers will monitor project funds. If a manager determines there are insufficient funds to cover anticipated labor charges, then immediate action will be taken to ensure an over obligation of funds does not occur. Possible actions are to request additional funds, reprogram funds from other projects, or stop work on the project. Work will not be started or continued on a project until funds are received in the District Budget Branch and recorded in the accounting system.

Cost transfers from one project to another will not be processed to alleviate an over obligation of funds. Insufficient funds will not be acceptable reason to transfer costs. Cost transfers will only be processed to correct bona fide errors in labor costing. Timekeepers, employees, and supervisors must ensure correct reporting and charging of time, attendance, and labor.

If an Eng Form 4091 is done to change the T&A, but there is no change to the work items or other cost codes, the timekeeper also needs to enter this change into screen 9.1.3, Prior Period Correction.

Labor cost transfers will be performed by F&A upon the receipt of a memorandum signed by the employee's supervisor whose charges were in error. The memorandum should indicate proper justification, along with the employee ID number, hours, type of hours, work date, PPE date, improper labor charge code, and correct labor charge code.

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F&A will review the requests for labor cost transfers for reasonableness of the justification. If the justification merely says due to administrative error with no other justification, it will be sent back as insufficient. If the request is properly documented and justified, then F&A will process the cost transfer. Requests that do not meet cost transfer criteria will be returned to the applicable supervisor for correction. Managers and supervisors are responsible for ensuring all labor errors are corrected within the same accounting period (month). (See separate SOP for Labor Dispute Errors.)

5. **SUMMARY:** All timekeepers, employees, supervisors, and managers must take a proactive role to ensure proper labor costing to projects. This SOP establishes procedures that will ensure compliance with laws, regulations, and HQ guidance. All employees who are involved in the labor cost process should be familiar with regulatory requirements. Failure to comply with this SOP may result in potential Anti-Deficient Act violations. The Resource Management Office is available to meet with your organization to further explain labor cost requirements.

Enclosure 1